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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 001172

SIPDIS

EEB FOR A/S SULLIVAN
SPECIAL ENVOY FOR EURASIAN ENERGY GRAY
EEB FOR ENERGY COORDINATOR MANN
EUR FOR DAS BRYZA

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SUBJECT: EU SUPPORTS TURKEY AS A NATURAL GAS HUB

REF: A. ANKARA 1070
[1](#)B. BRUSSELS 952

Classified By: Acting Deputy Chief of Mission Kim Deblauw for reasons 1
.4 (B) and (D)

[1](#)1. Summary. On June 20, Turkey's Nabucco Coordinator Osman Goksel told us the EU and Turkey reached a new level of understanding during June 14-15 talks with the EU Nabucco Coordinator's Assistant Brendan Devlin. Goksel supports the EU's new position which shifts focus from Nabucco to the larger goal of developing the Southern Gas Corridor to transport large volumes of Caspian gas to Europe. To that end, the EU had proposed the creation of a new company (Caspian Development Company (CDC) to encourage Turkmen and Kazakh leaders to speed up development of their natural gas sectors (ref b). The CDC would demonstrate Europe's willingness to buy large volumes of Central Asian gas and to build the infrastructure (including across the Caspian Sea) to bring it to Europe. Goksel said Turkey hopes to be a partner but not the lead company in CDC. The commercial structure of CDC is still being developed. The advantage of CDC for Turkey, according to Goksel, would be large volumes of gas transiting its territory (meaning transit fees for Turkey) and the EU's blessing to become a commercial gas trading hub. End summary.

EU's Proposal for Bringing Gas to Europe

[1](#)2. (C) Goksel was upbeat, describing a new level of confidence and understanding between the European Commission and Turkey during their June 14-15 Brussels meeting. Goksel said Devlin now understands that what is at stake is not just the Nabucco project but the very development of a viable Southern Corridor for Caspian gas to Europe. According to Goksel, the Commission's strategy had been narrowly focused on Nabucco companies (OMV, RWE, MOL, Transgaz, Bulgargaz, and BOTAS) believing that they held the key to getting Nabucco off the ground. Now, the EU has realized that the short-term interests of these companies (i.e. making a profit) may not be aligned with the EU's longer-term interests of developing a robust, competitive gas market. Goksel maintains that companies like OMV and RWE's interests lie in delivering gas to Europe but not in fostering a more competitive gas market which could force down their profit margins.

[1](#)3. (C) The Commission has now turned its attention to bringing large, new sources of Caspian gas to Europe. At the

meeting, Devlin proposed the creation of a special purpose company provisionally called the Caspian Development Company (CDC) to accomplish this goal, according to Goksel. The main aim of the CDC is to get Turkmenistan and Kazakhstan to step up investment in the upstream gas sector. The CDC would accomplish this by explaining to Turkmen and Kazakh leadership:

-- there is huge demand for gas in Europe (DG-TREN estimates Europe needs an additional 50 to 100 billion cubic meters by 2020);

-- Europe is ready now to commit to buy Central Asian gas; and

-- Europe is ready to build the infrastructure (i.e. trans-Caspian pipeline) to bring the gas to Europe.

Additionally, the EU is prepared to support the CDC politically and with financing. Goksel said that Devlin was assisting EU Nabucco Coordinator Jozias van Aartsen prepare his report for the Commission about the viability of Nabucco and the Southern Corridor. Devlin told Goksel the CDC proposal would be included in the report which is expected to be issued this summer.

What's in it for Turkey?

14. (C) According to Goksel, large volumes of Caspian gas would need a transit route and Turkey would be the ideal route to Europe (for a fee, of course). Turkey could also

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help increase the competitiveness and transparency of Europe's gas market by establishing a commercial gas hub in Turkey that would meet EU competition standards and serve as an open trading platform where any company could buy or sell gas. Devlin agreed to Turkey's proposal to establish a gas hub, Goksel said.

15. (C) Queried whether Botas (state-owned pipeline company) is seeking a role as the lead company or commercial champion for CDC, similar to BP's role for the Baku-Tbilisi-Ceyhan pipeline, Goksel said BOTAS would like to be a partner but could not lead the project. Goksel thought the lead company should have business in the Caspian but not have close ties to Gazprom, adding Chevron might be a good prospect. The commercial structure of CDC is still a work in progress; Goksel expects the EU to take the lead in its formation.

16. (C) Comment: Establishing CDC as a mechanism to develop new Caspian gas resources and bring them to Europe via a trans-Caspian pipeline is welcome news for our energy strategy. Turkey may be willing to drop its complicated demands linking gas transit arrangements to its own supply needs in return for the EU's CDC proposal (ref B). While the EU proposal addresses longer-term gas supply issues, it doesn't alleviate Turkey's more immediate need to meet rising gas demand, approximately 15% a year. A direct supply agreement with Azerbaijan for sizable volumes (Turkey's demand is 8 bcm) for a "good price" (i.e. lower than the Gazprom price) appears to be the best solution to the gas transit impasse with Turkey. The CDC proposal alone is unlikely to solve the gas transit issue.

17. (C) Comment continued: In addition, the CDC proposal may divert Turkey's attention from the highest priority issues and stretch thin its resources. For instance, BOTAS Chairman Saltuk Duzyol is a key figure in three ongoing negotiations; he is leading Nabucco discussions with the EU, he and Energy Minister Guler head bilateral negotiations with Azerbaijan for domestic gas supply, and he is responsible for price re-negotiations for Shah Deniz Phase I gas volumes. Of these three negotiations, the later two seem to have the most direct bearing on solving the gas transit issue and clearing the way for Shah Deniz Phase II gas deliveries to Europe. We

will continue to work with the GOT to maintain their focus on the near-term prize, Shah Deniz Phase II volumes to Turkey and Europe.

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WILSON